

Chapter 4 Lecture Notes

- What is economics and why is it important?
 - The study of the financial welfare of a society and how an economy operates
 - Economic utopia: growing income, full employment, stable prices, full use of capacity (productivity)
- Income= gross domestic product
 - $GDP = \text{Quantity of goods and services produced} \times \text{price of the goods and services produced}$
 - Nominal GDP is affected by the price; current prices times current production
 - Disposable Income (personal)
- Price Changes:
 - **Inflation** (rising prices); money has no meaning except what we can use it for!
 - **Deflation** (decreasing prices)
 - Measuring price changes:
 - **CPI, PPI, & GDP Deflator**
 - Issues:
 - Price Elasticity & Inelasticity
 - Some things we have to buy regardless of the cost (gas). Other things aren't worth the price:
 - Causes:
 - Demand Pull
 - Cost Push
 - Stagflation: demand goes down but inflation still goes up.
- Employment:
 - Measuring employment
 - Unemployment
 - Underemployment- not enough jobs for citizens of a society/ people are overqualified for their work
 - Causes:
 - Cyclical
 - Seasonal
 - Structural
 - Transitional
- Capacity: Factors of Production
- Free market: Capitalism; the Multiplier effect
- Demand curve: the lower the price, the more people want it/ the higher the price, the more people wont want it
- Equilibrium: where supply meets demand; Market price
- Shift in demand/ supply: price elasticity
- Economic power

- o Oligopolies: Apple and Microsoft, Exxon and Shell, etc
 - o Monopoly
- Economic systems:
 - o Free Market (Capitalism): very cruel to loose
 - o Socialism
 - o Communism- Karl Marx; take away incentives
 - o Controlled (Regulated) Economies
 - o Mixed Economies
- What happens in good and